

44th
ANNUAL
REPORT
2011-12



VST TILLERS TRACTORS LTD.

 **A VST GROUP
ENTERPRISE**

LORD GANESHA



**Idol of Lord Ganesha at
VST Tillers Tractors Limited**

Board of Directors : Mr. V.K. Surendra - *Chairman*
Mr. R. Subramanian
Mr. M.K. Bannerjee
Mr. V. Ramachandran
Mr. K.K. Rai
Mr. V.P. Mahendra - *Managing Director*
Mr. B.C.S. Iyengar - *Executive Director*
Mr. V.V. Pravindra - *Dy. Managing Director*

**Company Secretary
and Compliance Officer** : Mr. Chinmaya Khatua

Auditors : M/s. Brahmayya & Company
10/2, Khivraj Mansion,
Kasturba Road, Bangalore - 560 001

Cost Auditors : M/s. Rao, Murthy & Associates
No.23/33, Surveyor's Street
Basavanagudi, Bangalore - 560 004

Bankers : M/s. Canara Bank
M/s. State Bank of India

Legal Advisers : M/s. J. Sagar Associates
Advocates & Solicitors
2, Frontline Grandeur
14, Walton Road, Bangalore - 560 001

Regd. Office : Plot No.1, Dyavasandra Industrial Layout,
P.B.No.4801, Whitefield Road,
Mahadevapura Post, Bangalore - 560 048

INFORMATION

REQUEST TO MEMBERS

1. Please bring your copy of the Annual Report to the meeting as no extra copies will be distributed owing to limited number of copies printed.
2. Members are requested to send their queries, if any, relating to the annual accounts and reports at least one week prior to the date of meeting to facilitate computation of information.
3. Members/their proxies/representatives are advised to bring their Attendance Slip duly filled in for attending the meeting. An Attendance Slip and Proxy form are attached at the end of this Annual Report.

INFORMATION ABOUT DIRECTORS RETIRING BY ROTATION AND SEEKING RE-APPOINTMENT AT THE ANNUAL GENERAL MEETING.

Particulars	Mr. R. Subramanian	Mr. V. Ramachandran
Date of Birth & Age	03/10/1943 & 69 Years	26/01/1948 & 64 Years
Appointment on	12/10/1990	29-01-2004
Qualifications	FCA, AICWA, ACS, ACIS (London), MAC	Bachelor of Engineering
Expertise in specific functional Areas	Vast experience in Finance, Accounts & Taxation	Experience in Auto Component Industry, evolving long-term strategies and plans, investment decisions and formulating management policies.
List of outside Directorships held	Lotus Eye Care Hospital Ltd, Sandur Manganese & Iron Ores Ltd.	Kar Mobiles Ltd., EL-Forge Ltd, Vellore Electric Corporation Ltd, Sasyaka Engg. Solutions Pvt Ltd.
Member of Committees of Board	Chairman - Audit Committee	Chairman-Shareholders/Investors Grievance Committee. Member - Audit Committee
Member of Committees in other Company	Chairman - Audit Committee - Lotus Eye Care Hospital Ltd., Sandur Manganese & Iron Ores Ltd.	Member - Audit Committee - EL - Forge Ltd. Member - Shareholders / Investors Grievance Committee - Kar Mobiles Ltd.

By Order of the Board
for **VST TILLERS TRACTORS LTD.**

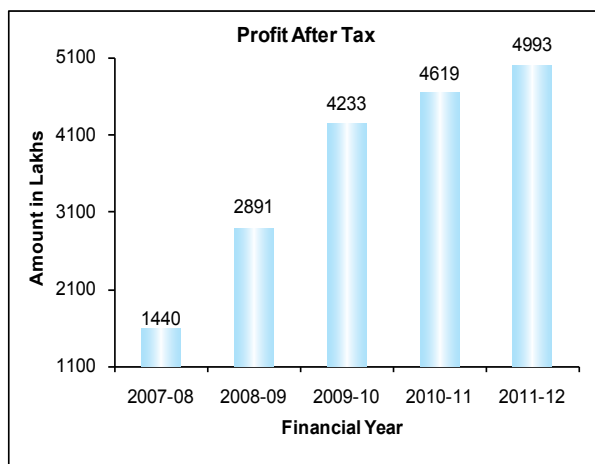
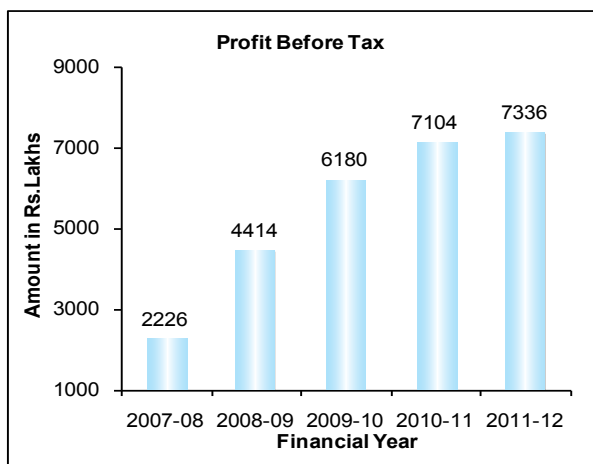
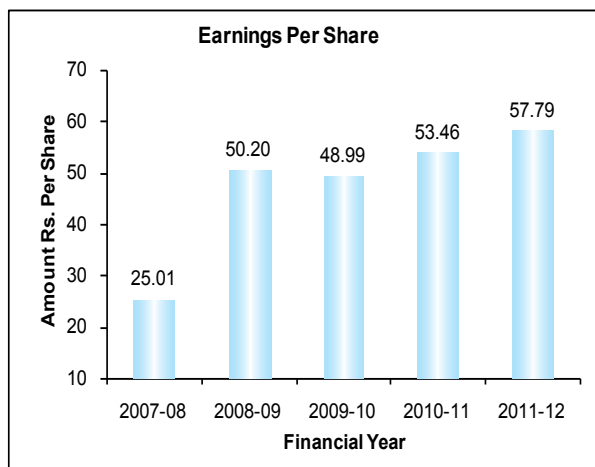
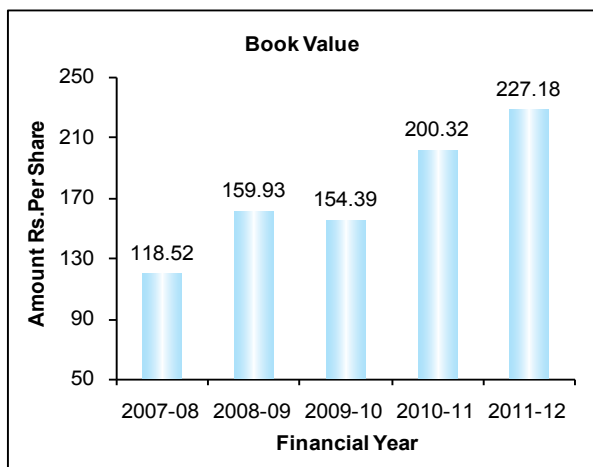
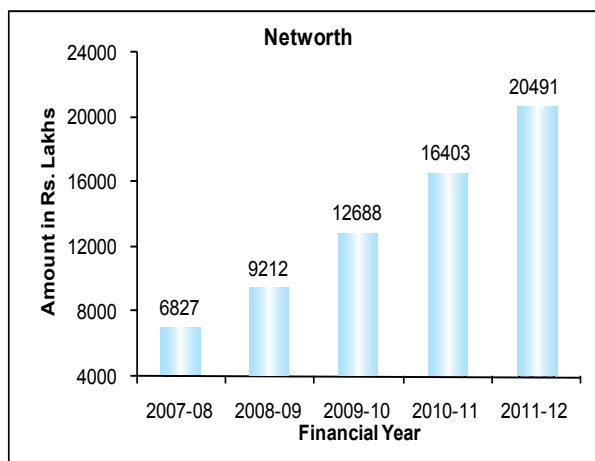
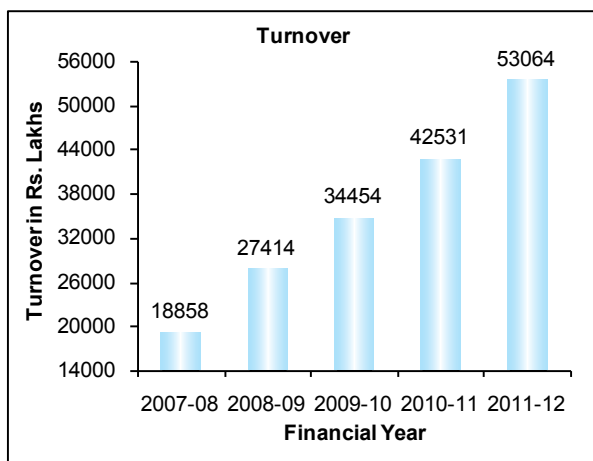
Place: Bangalore
Date: May 29, 2012

Chinmaya Khatua
Company Secretary

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FINANCIAL INDICATORS



Dear Shareholder,

Your Directors have pleasure in presenting the 44th Annual Report of the Company and the audited statement of accounts for the year ended March 31, 2012.

FINANCIAL PERFORMANCE

(Rupees in lacs)

Period	Year 2011-12	Year 2010-11
TURNOVER	53064	42531
OTHER INCOME	463	597
TOTAL INCOME	53527	43128
PROFIT BEFORE DEPRECIATION & INTEREST	7739	7403
INTEREST	82	72
DEPRECIATION	321	227
PROFIT BEFORE TAX	7336	7104
INCOME TAX	2343	2485
PROFIT AFTER TAX	4993	4619
BALANCE B/F	3008	2493
SURPLUS AVAILABLE FOR APPROPRIATION TO:	8001	7112
PROPOSED DIVIDEND	778	778
PROPOSED TAX ON DIVIDEND	126	126
TRANSFER TO GENERAL RESERVE	2800	3200
BALANCE CARRIED FORWARD	4297	3008

COMPANY'S PERFORMANCE

The financial year 2011-12 is of great significance to the Company as it records surpassing a turnover of Rs.500 crores. During the year under review your Company has been on a consistent upward path with the turnover increasing by 24% from Rs.425 crores in 2010-2011 to Rs. 530 crores. Your Company has clocked a modest growth by selling over 26000 Tillers and maintained its leadership position in the power tiller industry while significantly improving tractor sales which crossed 7000 units.

Though the farm sector was well placed to attain a moderate growth, challenges remained high for the Company during the year. The operating profit increased marginally by 3% to Rs. 68 crores. This marginal increase on a 24% higher turnover is due to steep escalation in cost of raw materials and margins continued to be under pressure. The profit after tax amounted to Rs. 50 crores, an increase of 9% over the previous year and earnings per share during the year increased from Rs.53.46 to Rs.57.79 On the financial front, your Company has adopted a disciplined approach towards managing liquidity though delays in

realization of government subsidies have significantly pushed up the receivables and working capital.

The sale of power tillers during the year increased by 12% and Chinese made "Dragon" tiller sale improved significantly over the previous year though on a lower base. The Tractor sales have grown by a robust 50% in line with the growing demand. Your Company's plan to market Rice Transplanters has been encouraging primarily driven by non availability of farm labour during transplanting season. During the year, 370 units were sold in the rice growing belts in India.

The Precision Components Division's performance has been steady despite the continuous increase in cost of inputs and overheads. Export margins have contracted due to spiralling raw material costs with very little scope for passing on the higher cost. Several cost cutting measures and low cost automation was introduced. Due to the volatility of overseas orders, export revenue slowed down resulting in lower capacity utilization in some areas. This division is primarily contributing to the overall performance of your Company on a lower cost base and is now focusing on producing components for captive use.

DIVIDEND:

Your Directors have pleasure in recommending a dividend of Rs.9/- per equity share of Rs.10/- each for approval at the Annual General Meeting. The dividend if declared will result in an outflow of Rs. 904 lacs including the distribution tax.

NSE LISTING:

The shares of the Company were listed and admitted to dealings on the National Stock Exchange of India Limited w.e.f. June 20, 2011.

DIRECTORS:

In accordance with the provisions of the Companies Act, 1956 and Articles of Association, Mr. R Subramanian and Mr. V. Ramachandran Directors of the Company retire by rotation and are eligible for re-appointment.

CORPORATE GOVERNANCE:

The Company strives to ensure highest standards in Corporate Governance and levels of transparency with all the provisions of Clause-49 of the Listing Agreement. A certificate from the Auditors to this effect forms part of Corporate Governance Report.

DIRECTOR'S RESPONSIBILITY STATEMENT:

Pursuant to sec 217(2AA) of the Companies Act 1956, amended as per Companies (Amendment) Act 2000, the Directors confirm that:

In preparation of the Annual Accounts of your Company the Accounting Standards laid down by the Institute of Chartered accountants of India from time to time have been followed.

Appropriate Accounting policies have been selected and applied consistently, reasonable and prudent judgment and estimates have been made so as to ensure that the accounts give a true and fair view of affairs of your company as at March 31, 2012 and the profits of your company for the year ended March 31, 2012.

Proper and sufficient care has been taken for the maintenance of appropriate accounting records in accordance with the provisions of the act for safeguarding the assets of your company and for preventing and detecting frauds and other irregularities.

The annual accounts have been prepared on a going concern basis.

The observations of Auditors in their report to Members have been adequately dealt with in the relevant notes to accounts. Hence no additional explanation is considered necessary.

AUDITORS:

M/s. Brahmayya & Company, Chartered Accountants, retires as Auditors of the Company at the conclusion of 44th Annual General Meeting and are eligible for re-appointment.

COST AUDITORS:

M/s. Rao, Murthy & Associates, Cost Accountants were re-appointed by the Board of Directors in its meeting held on May 29, 2012. The Cost Audit Report for the financial year 2010-11 was filed on August 19, 2011 and the due date for filing the report was September 30, 2011.

PARTICULARS OF EMPLOYEES:

As required by provisions of Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules 1975, as amended, there are no employees who draw remuneration as set out in the aforesaid provision of the Companies Act.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUTGO:

Information under Section 217(1)(e) of the Companies Act, 1956 read with the Companies (Disclosure of particulars in the Report of Board of Directors) Rules, 1988 and forming part of the Directors' Report for the year ended 31st March 2012 is enclosed as Annexure.

FIXED DEPOSITS:

Your Company has not accepted any fixed deposits within the meaning of Section 58A of the Companies Act, 1956 and rules made there under.

MANAGEMENT'S DISCUSSION AND ANALYSIS**Industry structure and developments:**

The GDP growth of the Indian economy declined to 6.5% during 2011-12 against 8.4% recorded in 2010-11 due to high inflation and lower rate of growth in manufacturing. With the various measures adopted by the government and a normal monsoon the agriculture sector is expected to grow by 3% compared to 5% growth during 2010-2011. The relatively weak responses to price hikes in agricultural commodities

brings back into focus on the need for sustained levels of growth in agriculture and allied sectors.

The Power Tiller industry which is growing at around 20% per annum largely relies on Government subsidies and agricultural lending by banks. On the demand side, Power Tillers being imported from China by various players has seen robust growth during the year and is posing a challenge to your company in its endeavor to increase its market share. It is encouraging for the industry that due to shortage of labor, potential for power tillers, rice transplanters and other farm equipment is well positioned to attain a high growth trajectory.

The Indian tractor market which is the largest in the world is expected to increase at a CAGR of 6-7% by 2014-15. The biggest markets for the tractor industry include States like Uttar Pradesh (UP), Andhra Pradesh (AP), Madhya Pradesh (MP), Rajasthan, and Maharashtra, which together accounted for around 50% of the total tractor sales in India during 2011-12. In the domestic tractor market, the industry as a whole grew to 607658 units during 2011-12 from 545109 units in the previous year. Your company commands a significant market share in Maharashtra and Gujarat in the smaller HP tractors and sales in this segment are expected to grow in the coming year. New players are entering the below 20-25hp segment to tap the potential in these markets. To cater to market demand, the manufacturing capacities will be established by the year end. A new model with better aesthetics are being planned that will lead to higher revenue streams during the year.

OPPORTUNITIES

The growth of the Power tiller and Tractor industry could be directly linked to the GDP growth of the Indian economy. Agriculture which is slated to register a positive growth of 3% which will benefit farm mechanization and provide opportunities for higher sales and optimum utilization of capacities. Government schemes such as Rashtriya Krishi Vikas Yojana (RKVY), Macro Management Scheme and National Food Security Mission will also support a strong demand and help the Company to increase volumes in absolute terms. With infrastructure projects and rural employment schemes increasing employment opportunities, availability of labour for agricultural activities continued to decline, compelling farmers with small and medium-sized land holdings to mechanize.

Being an organized player in the power tiller industry along with a strong after sales service, your Company is constantly evolving by taking initiatives like brand building and upgrading dealers to face competition.

RISKS AND CONCERNS

Agriculture is the backbone of India's economy. Though various irrigation schemes have been conceived to enhance the cultivable area, the agricultural sector continues to be monsoon dependent. On another front, higher interest rate of bank finance for your Company's products and increasing delay in releasing timely subsidy by various states for power tillers is an area of concern. During the year, sale of Chinese made power tillers under various subsidy schemes has intensified competition for your Company. Appropriate marketing strategies are being adopted to gain market share and strengthen our competitive edge in the current scenario. The government's fiscal policy of controlling inflation by hardening of interest rates could have an adverse impact on the demand for power tillers and tractors. As for margins, the Company would remain vulnerable to adverse changes in input costs during the year.

CURRENT YEAR OUTLOOK

Agriculture is the mainstay of more than two-thirds of the country's population and with the expansion of non-farm economic activities there is a tendency to exit this field. The Government is targeting over 4% growth for agriculture which is necessary to support a 9% GDP growth which is the theme of the 12th Five Year Plan. Expenditure on rural development and investments are expected to grow, besides improving infrastructure according to the Economic Survey. A favourable monsoon coupled with ease of credit availability to farmers will have a positive influence on the power tiller and tractor industry. During the current year, with various marketing and development initiatives undertaken, your Company is confident of maintaining its growth momentum. On the export front, the outlook is positive for tractors and your Company is presently taking steps for obtaining export certification for marketing in European countries.

The steps taken to introduce Rice Transplanters in various states are proving to be sustainable in the long term with government support. Extensive work to train self-help groups who have been effective agents of change on various aspects of adapting to mechanized

transplantation have been undertaken. Your Company driven by these initiatives is expecting to reap rewards in the future with more models.

Currently, the pressing need is efficiency in procuring raw material. Due to the growth experienced in industry coupled with shortage of power in certain areas, availability of key raw materials have had adverse repercussions on the Company's production leading to opportunity losses. The year ahead could be challenging if inflationary conditions are not contained which may lead to lower than expected contribution. Recognizing that for enhancing production, scale is essential, your Company is developing new vendors and focusing on improved efficiency from supply chain management.

During the year, your Company has commenced work on establishing a new Tractor manufacturing plant located in Hosur, Tamil Nadu with an installed capacity of 36000 units p.a. The financial outlay for this project is budgeted at Rs. 66 crores and funded with a mixture of internal accruals and debt. The plant is expected to go on stream during the end of the first quarter of 2013. This project will also give the Company the prospect of introducing more tractor models and de-risk its current portfolio and seize growth opportunities in the future

At Precision Component Division, investment in critical machinery has been made only in required areas to cater to higher captive consumption. We believe the export demand would remain flat due to the economic downturn in overseas market and the static customer base. Realizing the current scenario, your Company's plan is to continue its focus on in-house supply.

Internal Control Systems

Your Company maintains adequate internal control system, which provides reasonable assurance that transactions in significant areas are monitored to prevent any misuse. To strengthen this area your Company is looking at improved responsiveness from a fully integrated ERP. This will enable vendors to get information on material requirement and ensure streamlined supply of materials. The new system will improve its capability and speed of information to add more value. The Internal auditors carry out audits on a regular basis and submit their report once in a quarter to the Audit Committee. The Audit Committee reviews

the report and recommendations of the Internal Auditors and advises the Management to strengthen and streamline the system wherever required.

Industrial Relation

Industrial relations have been cordial across all the plants during the year. Your Company is continuously taking initiatives for building organizational capabilities and enhancing people productivity. Various training and development programs were offered to the managerial cadre to upgrade their skills and develop the human resource base. Your company has been increasing the strength of apprentices and trainees across various departments to cultivate new talent. Steps are also being implemented to strengthen specific areas that are considered key to the Company in achieving its business goals.

Forward-Looking Statements

Statements in this release that are "forward-looking statements" are based on current expectations and assumptions that are subject to risks and uncertainties. Actual results could differ materially from those either expressed or implied due to factors such as Raw material prices, Government policies, Competition, tax regime, market acceptance of new products and services, continued acceptance of existing products and services, changes in licensing programs, product price discounts, delays in product development and related product release schedules, sales channel disruption.

All information in this release is as of May 29, 2012, The Company undertakes no duty to update any forward looking statement to conform the statement to actual results or changes in the company's expectations.

ACKNOWLEDGEMENTS:

The Directors wish to convey their gratitude for the faith reposed in your Company by Mitsubishi Heavy Industries Limited, the financial institutions, employees and the customers at large.

for VST TILLERS TRACTORS LTD.

Place: Bangalore
Date : May 29, 2012

V. K. Surendra
Chairman

ANNEXURE

Information under Section 217(1)(e) of the Companies Act, 1956 read with the Companies (Disclosure of particulars in the Report of Board of Directors) Rules, 1988 and forming part of the Directors' Report for the year ended 31st March 2012.

I. Conservation of energy :

As the industry is not a power intensive unit, no capital investment was made and hence no benefit could accrue.

2. A. Research and Development (R&D) :

- a. Speed increase of Existing MT180D Tractor for Road use implemented.

High speed kit provided

- b. 22HP Tractor trial batch field evaluation completed.
- c. 22HP engine optimisation for compliance to Trem IIIA requirement completed.

B. Technology Absorption:

Procurement of ANSYS software for design section.

C. Benefits derived :

ANSYS analysis software procured for design section will enhance the product design capabilities as the software supports static, dynamic and kinematic simulation of parts/assemblies. Static/dynamic stress analysis on parts/assemblies will assist in product reliability prediction and helps in reliability enhancement capabilities.

D. Expenditure on R&D :

- a. The Company's expenditure on R&D during the year was Rs. 1,12,53,392/-

E. Future plan of action :

- a. Testing and approval of 22 HP tractor under progress.
- b. New engine development 25 & 28HP
- c. Transmission and Rotary development for 25 & 28 HP Tractors.
- d. Upgradation of MT180D Tractor Hydraulic system by implementing Autodraft and Depth control.
- c. Homologation updation for Tractor for European Market.

3. Foreign exchange earnings and outgo:

- a) Complete information about exports, which have contributed towards foreign exchange earnings, is given in Note No. 36 to the Audited Accounts annexed to this Report. Similarly, details of foreign exchange outgo on account of imports, expenditure on traveling, dividend etc. are shown in Note No. 35 & 37, i.e., in Notes forming part of Accounts.
- b) Total foreign exchange used and earned :
 Foreign exchange earnings : Rs. 9,49,16,993/-
 Foreign exchange outgo : Rs. 21,25,106/-